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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION	)	CASE NO. AVU-E-14-07
OF AVISTA CORPORATION FOR A	)	CASE NO. AVU-G-14-02
FINDING OF PRUDENCE FOR 2013	)	
EXPENDITURES ASSOCIATED WITH	)	
PROVIDING ELECTRIC AND NATURAL GAS	)	DIRECT TESTIMONY
ENERGY EFFICIENCY SERVICE IN THE	)	OF
STATE OF IDAHO	)	BRUCE W. FOLSOM
	)	

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

1 I. INTRODUCTION

2 Q. Please state your name, employer and business  
3 address.

4 A. My name is Bruce Folsom. I am employed by  
5 Avista as Director, Products and Services. My business  
6 address is East 1411 Mission Avenue, Spokane, Washington.

7 Q. Would you please describe your education and  
8 business experience?

9 A. I graduated from the University of Washington in  
10 1979 with Bachelor of Arts and Bachelor of Science  
11 degrees. I received a Masters in Business Administration  
12 degree from Seattle University in 1984.

13 I joined the Company in 1993 in the State and Federal  
14 Regulation Department. My duties included work associated  
15 with tariff revisions and regulatory aspects of integrated  
16 resource planning, demand side management, competitive  
17 bidding, and emerging issues. In 2002, I was named the  
18 Manager of Regulatory Compliance which added  
19 responsibilities such as implementing the Federal Energy  
20 Regulatory Commission's major changes to its Standards of  
21 Conduct rule. I joined the Customer Solutions Department  
22 in September of 2006 and was the Director of Energy  
23 Efficiency Policy throughout 2013, the period of requested

1 findings in this case. I began my current duties in July  
2 of 2014.

3 Prior to joining Avista, I was employed by the  
4 Washington Utilities and Transportation Commission  
5 beginning in 1984, and then served as the Electric Program  
6 Manager from 1990 to February, 1993. From 1979 to 1983, I  
7 was the Pacific Northwest Regional Director of the  
8 Environmental Careers Organization, a national, private,  
9 not-for-profit organization.

10 Q. What is the scope of your testimony in this  
11 proceeding?

12 A. I will provide an overview of the Company's  
13 recent Idaho DSM portfolio results and expenditures for  
14 electric and natural gas efficiency programs. I address  
15 Avista's involvement with the Northwest Energy Efficiency  
16 Alliance (NEEA), provide an update on the Company's  
17 university research and development activities and, status  
18 of the Company's suspended natural gas DSM programs,  
19 overall evaluation by Avista's third-party contractor  
20 ("Cadmus"), and opportunities presented for stakeholder  
21 involvement.

22 This is Avista's second case, seeking a finding of  
23 prudence, in a stand-alone manner outside of a general

1 rate case. DSM prudence was a component of general rate  
2 case filings from 1995 through 2009. Case Nos. AVU-E-13-9  
3 and AVU-G-13-2 presented 2010 through 2012 energy  
4 efficiency results and expenses, as requested by Staff and  
5 stakeholders to be reviewed outside of a general rate  
6 case.

7 Lastly, I introduce the other Company witnesses in  
8 this case.

9 Q. Do you sponsor exhibits?

10 A. Yes, I present two exhibits. Exhibit No. 1,  
11 Schedule 1 is a summary of 2013 research and development  
12 projects, funded by the DSM tariff rider. Exhibit No. 1,  
13 Schedule 2 is Avista's 2013 Annual Report-Demand-Side  
14 Management, Idaho. This includes a summary of DSM energy  
15 savings and levelized costs; a summary of electric DSM  
16 cost-effectiveness; and a summary of natural gas DSM cost-  
17 effectiveness.

18 II. OVERVIEW OF DSM PROGRAMS AND CURRENT ISSUES

19 Q. Would you please provide a brief overview of  
20 Avista's DSM programs?

21 A. Yes. Avista has continuously offered energy  
22 efficiency services since 1978. This is the twentieth year  
23 of the DSM tariff rider, a distribution charge to fund DSM

1 that is now replicated in many other states. Schedule 91  
2 currently has a rate equal to 2.7% of retail revenue for  
3 electric service and the Schedule 191 rate is 0.0% of  
4 retail revenue for natural gas.

5 As will be described by Company witness Mr. Drake,  
6 the Company's programs are delivered across a full  
7 customer spectrum. Virtually all customers have had the  
8 opportunity to participate and many have directly  
9 benefited from the program offerings. All customers have  
10 benefited through enhanced resource cost-efficiencies as a  
11 result of this portfolio approach.

12 Q. What were the Company's energy efficiency  
13 targets and results for 2013?

14 A. The Company's energy efficiency targets are  
15 established in the process of developing the Electric and  
16 Natural Gas Integrated Resource Plans (IRPs). The targets  
17 derived through the resource planning efforts provide a  
18 starting point for program planning which is accomplished  
19 through the annual business planning process where program  
20 offerings are optimized for the Company's service  
21 territory based on current economic and market conditions.

22 The results of Avista's energy efficiency programs  
23 continue to exceed the targets established as part of this

1 IRP process, as shown in Table No. 1 below. Idaho energy  
2 efficiency savings for 2013 were 25,899 first-year MWh.  
3 This represents 136% of the Company's IRP target of 19,009  
4 MWh for this period.

5 **Table No. 1**

Type of Reported Savings	2013 MWh Savings	2013 IRP Target	Percent Achieved
Gross	25,899	19,009	136%
Net	21,999	n/a	n/a

6  
7 The above table reflects that the Idaho Commission  
8 has historically requested that "net savings" be provided  
9 in addition to "gross savings." Net savings are the total  
10 (or gross) savings less what customers would likely have  
11 done without a utility offering energy efficiency  
12 programs. The "n/a" is shown in Table 1 because Avista  
13 does not have targets on a net basis. Exhibit No. 1,  
14 Schedule 2 is Avista's 2013 Annual Report-Demand-Side  
15 Management, Idaho and provides substantial detail in  
16 support of the above figures.

17 Over 189 aMW of cumulative savings have been achieved  
18 through Avista's energy efficiency efforts in the past  
19 thirty-six years - of which 122 aMW of DSM is currently in  
20 place on the Company's system, with approximately 36 aMW

1 in our Idaho service territory. Current Company-sponsored  
2 conservation reduces retail loads by 10.6 percent.

3 In November of 2012, Avista suspended its Idaho  
4 natural gas programs because they were not cost-effective  
5 under the total resource cost (TRC) test, due to low  
6 natural gas avoided costs. Legacy (or previous projects  
7 with carry-over to 2013) savings and savings from electric  
8 projects that had corresponding natural gas savings (but  
9 with no natural gas efficiency cost) in 2013 were 51,772  
10 therms, as reported by Cadmus. (This is shown in Avista's  
11 Annual Report as 51,774, due to rounding a series of line  
12 items.)

13 Q. What was the cost of these efficiency  
14 acquisitions?

15 A. During 2013, the Company spent \$7.634,864 on  
16 Idaho electric and natural gas DSM programs, of which 64%  
17 was paid out to customers in direct incentives pursuant to  
18 the cost-effectiveness tests shown in Exhibit No. 1,  
19 Schedule 2, page 32. This percentage does not include  
20 additional benefits such as technical analyses provided to  
21 customers by the Company's DSM engineering staff.

22 Q. Do the 2013 results reflect Avista's  
23 participation in regional energy efficiency efforts?

1           A.    Yes.    The numbers reported include 4,642.8 MWh  
2   of first-year Idaho savings acquired through Northwest  
3   Energy Efficiency Alliance's (NEEA) regional efforts.  
4   NEEA focuses on using a regional approach to obtain  
5   electric efficiency through the transformation of markets  
6   for efficiency measures and services. Avista has been a  
7   member of the NEEA, and actively involved in its  
8   governance, since the creation of that organization in  
9   1996. As one of fourteen funders, Avista is supportive of  
10  the use of a coordinated regional market transformation  
11  effort to the extent that the effort is a cost-effective  
12  enhancement of, or alternative to, local utility efforts  
13  at acquiring those resources for our customers. Avista has  
14  committed to NEEA's next funding period of 2015 through  
15  2019, opting in for all NEEA initiatives.

16           The levelized cost of resources acquired through  
17  Avista's Idaho participation in NEEA was 1.8 cents per  
18  kWh. This compares with \$141 per first-year MWh for  
19  Avista-funded local energy efficiency programs in Idaho.  
20  During 2013, Avista's Idaho-related NEEA funding was  
21  \$801,838.

22           Q.    In Case Nos. AVU-E-13-9 and AVU-G-13-2, the  
23  Commission Staff made a series of recommendations that

1 were adopted in Order No. 33009. Would you please provide  
2 a brief update?

3 A. Yes. On March 6, 2014, the Commission Staff  
4 filed comments, including recommending the following:

- 5 1. Approve \$25,172,700 as prudently incurred expenses  
6 for the years 2010-2012. This amount consists of  
7 \$19,827,396 in Idaho electric tariff rider expenses  
8 and \$5,345,304 in Idaho gas tariff rider expenses.
- 9 2. Directs Avista to identify and establish a central  
10 decision maker for DSM policy and procedures. In  
11 response to this recommendation, the Company  
12 announced that Dan Johnson was named Sr. Manager of  
13 Energy Efficiency. Mr. Johnson has been with Avista  
14 since October 2010 when he was hired as the Smart  
15 Grid Project Manager for the Pullman demonstration  
16 project. Most recently, he has been in the role of  
17 Manager of Project Management and Construction  
18 Contracts in Generation Production and Substation  
19 Support. He received his Bachelor's Degree in Civil  
20 Engineering from the University of Washington and his  
21 Master's in Engineering Management from Portland  
22 State University. He came to Avista from the Spokane  
23 International Airport where he was the Director of

1           Engineering and Planning. Under Mr. Johnson's  
2           leadership, the DSM organization will be fully  
3           integrated.

4           3. Defers recovery of Lewis and Clark State College and  
5           Office of Energy Resources (OER) project incentives  
6           until Avista's next prudency filing to provide the  
7           Company an opportunity to obtain purchase and labor  
8           invoices and verify installation of all funded  
9           projects. As discussed in more detail in Company  
10          witness Mr. Drake's testimony, the Company believes  
11          it has gathered all available and relevant  
12          documentation to support prudency of both the OER and  
13          LCSC projects.

14          Avista filed reply comments on March 19, 2014  
15          supporting Commission Staff's recommendation and committed  
16          to filing a status report describing how the Company has  
17          addressed concerns raised in their comments.

18          Avista subsequently submitted a Status Report  
19          responsive to the above on June 26, 2014.

20          **Q. Please provide an update on Avista's research**  
21          **and development work with Idaho universities.**

22          A. On August 30, 2013, Avista filed a request with  
23          the Commission to authorize up to \$300,000 per year of

1 Schedule 91, DSM Tariff Rider revenue to fund applied  
2 research at Idaho's universities through a "call for  
3 papers" approach. The intent of this initiative is to  
4 supplement the pipeline of emerging technology. The  
5 Commission approved this request in Case No. AVU-E-13-08  
6 on October 30, 2013. Sixteen projects were submitted.  
7 Four were selected; three from the University of Idaho and  
8 one from Boise State University. This is summarized in  
9 Exhibit No. 1, Schedule 1.

10 Q. What is the status of the Idaho electric and  
11 natural gas tariff rider balances?

12 A. At December 31, 2013, the Idaho electric and  
13 natural gas tariff rider balances were \$3,459,189  
14 underfunded (i.e. dollars expended exceeded dollars  
15 collected through the Tariff Rider)<sup>1</sup> and \$674,059<sup>2</sup>  
16 overfunded, respectively.

17 Q. Due to low natural gas avoided costs, Avista  
18 suspended its natural gas energy efficiency programs by  
19 Commission decision effective September 1, 2012. Does the

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<sup>1</sup> The tariff rider adjustment is set to recover the underfunded balance over a two-year period.

<sup>2</sup> The Parties to the settlement agreement in the Case Nos. AVU-E-14-05 and AVU-G-14-01 have proposed that the natural gas tariff rider balance be refunded to customers, per the terms of the proposed settlement agreement.

1 Company have plans to consider bringing these programs  
2 back?

3 A. Yes. Avista intends to propose an offering of  
4 natural gas efficiency programs in Idaho when the cost-  
5 effectiveness is "favorable" as measured by the total  
6 resource cost (TRC) test. Avista will monitor the  
7 quarterly weighted average cost of gas (WACOG) relative to  
8 the prevailing WACOG when Schedule 191 was suspended, as a  
9 proxy for avoided cost. Currently, the June 2014 WACOG of  
10 \$0.41 per therm remains insufficient for the Company to  
11 field a cost-effective local portfolio.

12 Q. Please describe the opportunity for external  
13 review of Avista's DSM activities.

14 A. The Company has had continuous energy efficiency  
15 stakeholder involvement since 1992. The Company's program  
16 offerings, planning, evaluation findings, underlying cost-  
17 effectiveness tests and results are reviewed during  
18 stakeholder meetings. Currently, the Company holds in-  
19 person meetings at least twice per year, hosts several  
20 webinars annually, provides a full analysis of the results  
21 of DSM operations on an annual and monthly basis,  
22 identifies (with appropriate precautions for customer

1 confidentiality) large projects and provides a quarterly  
2 newsletter summarizing recent DSM activities.

3 Avista appreciates the active engagement of the  
4 Commission Staff as part of our Energy Efficiency Advisory  
5 Group. Additionally, the Snake River Alliance, the  
6 Northwest Energy Coalition, University of Idaho Integrated  
7 Design Lab and the Northwest Industrial Gas Users have  
8 representation on Avista's Advisory Group.

9 III. PRUDENCE OF INCURRED DSM COSTS

10 Q. Would you please explain the Company's request  
11 for a finding of prudence in this case?

12 A. Yes. Idaho electric programs have been cost-  
13 effective from both Total Resource Cost (TRC) test and  
14 Program Administrator Cost (PAC) test perspectives. The  
15 2013 TRC benefit-to-cost ratio of 1.23 for the Idaho  
16 electric DSM portfolio is cost-effective, with a residual  
17 TRC benefit to customers of over \$2.1 million. The PAC,  
18 also known as the Utility Cost Test (UCT), benefit-to-cost  
19 ratio during 2013 was 1.86, with a residual PAC benefit of  
20 nearly \$5.3 million. These are summarized in Exhibit No.  
21 1, Schedule 2, page 6.

1           The natural gas portfolio was suspended in 2013 and  
2 the costs and benefits shown in Exhibit No. 1, Schedule 2  
3 are residual from the pre-2013 period.

4           The Company requests that the Commission issue a  
5 finding that electric and natural gas energy efficiency  
6 expenditures from January 1, 2013 through December 31,  
7 2013 were prudently incurred.

8           **Q. Please summarize the Company's energy  
9 efficiency-related savings for this period?**

10          A. The Company's tariff riders under Schedules 91  
11 (electric) and 191 (natural gas) are system benefit  
12 charges to fund energy efficiency.

13          From January 1, 2013 through December 31, 2013,  
14 25,899 MWh, on a gross basis, and 51,772 therms of first-  
15 year efficiency savings were achieved. Pages 6 through 11  
16 of Exhibit No. 1, Schedule 2 detail the energy savings by  
17 regular and low-income portfolios for both electric and  
18 natural gas DSM programs.

19          **Q. What evaluation of the Company's DSM programs  
20 have occurred?**

21          A. Cadmus performed independent (or "third-party")  
22 impact and process evaluation on Avista's DSM programs for  
23 the 2013. Impact evaluation is intended to verify, and

1 adjust as necessary, "claimed" savings. Process  
2 evaluation reviews "procedures" for continual improvement.  
3 Witnesses Mr. Drake and Dr. Khawaja describe the results  
4 of this work in detail.

5 Q. Can you please summarize Avista's request in  
6 this case?

7 A. Yes. The Company requests a finding that the  
8 expenditure of tariff rider revenue has been reasonable  
9 and prudent. A portfolio of programs covering all  
10 customer classes has been offered with gross savings of  
11 25,899 MWh and 51,772 therms during January 1, 2013  
12 through December 31, 2013. The 2013 TRC benefit-to-cost  
13 ratio of 1.23 for the electric DSM portfolio is cost-  
14 effective. The natural gas portfolio was suspended in 2013  
15 and the costs and benefits shown in Exhibit No. 1,  
16 Schedule 2 are residual from the pre-2013 period.

17 The Tariff Rider funded programs have been  
18 successful. Participating customers have benefited through  
19 lower bills. Non-participating customers have benefited  
20 from the Company having acquired lower cost resources as  
21 well as maintaining the energy efficiency message and  
22 infrastructure for the benefit of our service territory.

23

1 IV. OTHER COMPANY WITNESSES

2 Q. Would you please provide a brief summary of the  
3 testimony of the other witnesses representing Avista in  
4 this proceeding?

5 A. Yes. The following additional witnesses are  
6 presenting direct testimony on behalf of Avista:

7 Chris Drake, Manager of Demand Side Management  
8 Program Delivery, will describe Avista's energy efficiency  
9 program offerings available to Idaho customers in 2013,  
10 and program management perspectives. Mr. Drake will also  
11 respond to Evaluation, Measurement and Verification  
12 findings and Cadmus recommendations specific to  
13 implementation issues.

14 Dr. Sami Khawaja, Executive Consultant, The Cadmus  
15 Group, will present the results of third party  
16 verification of Avista's 2013 DSM electric portfolio. Dr.  
17 Khawaja will describe the methodology and conclusions of  
18 his company's independent impact evaluations and process  
19 evaluations that are a central component of Avista's EM&V  
20 Framework and EM&V Plan. His testimony concludes that  
21 Avista's Idaho electric DSM programs achieved 25,899,345  
22 kWh in 2013 and an explanation of the 51,772 therms of  
23 natural gas savings.

1           Q.   Does that complete your pre-filed direct  
2 testimony?

3           A.   Yes, it does.